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Exporter Guide

The First Report of the Product Assessment Support Services (PASS)

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Report Highlights:

This is the first report of ATO Guangzhou's Product Assessment Support Services (PASS). Twelve of 17 new products have sales potentials in South China.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Guangzhou [CH3], CH

ATO Guangzhou launched the Product Assessment Support Services (PASS) in June to help introduce new food products to South China. The first report of PASS shows 12 of 17 new products have sales potentials in South China.

ATO Guangzhou has retained three seasoned importers in Guangzhou and Zhuhai to help assess 17 new food products in the South China market for 3 U.S. exporters. The assessment was focused on whether the products have sales potentials in South China, and at what retail price the products might be sold.

The assessed products included sunflower oil, kernel of corn, cola, orange soda, ketchup, cashews, mixed nuts, macadamia nuts, canned fruit (mixed fruit, pear halves, sliced peaches), honey, neutralized muscadine, pepper sauce, lite creamer, peanut butter, and apricot jam. All but one of these products were displayed at recent trade shows in the region.

Product Assessment Report:

Note: The exchange rate is US\$1.00=RMB 8.265 yuan. The ATO Marketing Report is based on staff visit to the Parkn' Shop Superstore, the Guangzhou Merchandise Building, Jusco, the Trust-Mart, and the Friendship Store in Guangzhou.

Products	Importer A	Importer B	Importer C	ATO Marketing Report*
Sunflower Oil	New Products. Has potential in China. Need promotion and advertisement support.	Has great competition advantage over peanut oil and corn oil. Bright future in South China.	Has sales potentials in South China. Suggest retailing at RMB 29-30 yuan/500 ml.	The product has no other foreign brands in South China.
Kernel of Corn	Sales potential is great if the price is right. US corn is sweeter than Chinese corn.	Its market demand is less than the cream of corn. China has a lot of kernel of corn.	Product has many brands in China. US quality is better. There is a demand for US products. Couple sale with cream of corn for best result.	Del Monte (US) brand is the leading brand in the market. Other brands are American Chef (Thai) and S&W (US). Price range: RMB6.50-9.00 yuan/340-430g.
Cola	Market for new brand limited. Entry by starting a bottling company in China and mounting extensive promotion.	The new brand will find it difficult to compete with existing brands. Test the market if the price is not higher than Coca-cola.	Difficult to penetrate the market. Prices for soft drinks have hit rock bottom.	Fruit juices are more popular. Tea remains the drink of choice. Carbonated drinks are losing ground. Coca-cola and Pepsi Cola readily available in local markets.

Orange Soda	Market for new brand limited. Entry by starting a bottling company in China and mounting extensive promotion.	The new brand will find it difficult to compete with existing brands. Test the market if the price is not higher than similar soft drinks.	Difficult to penetrate the market. Prices for soft drinks have hit rock bottom.	Fruit juices are more popular. Tea remains the drink of choice. Carbonated drinks are losing ground. Orange flavored soft drinks readily available in local markets.
Ketchup	Other brands available in the market. If the quality and price are right, there are sales potential.	The product may find a niche in the market. To compete with peer products, it needs market promotional support from the manufacturer.	One-half of consumers use domestic products and 30% use Del Monte. Suggest retailing not to exceed RMB12.00 yuan.	Ketchup is most often used with French fries in fast food outlets. Del Monte (Malaysia) is the leading brand. Other brands include Heinz (Indonesia) and President (Canada). Price range: RMB7.50-16.00 yuan/300-375g.
Cashews	The product has sales potentials in China. It would be more profitable if the product is processed in China.	Price will be the deciding factor. If the price is right, the product has sales potentials in China.	The product is relatively expensive and acceptable to high-income people. If the price is low and the quality high, the product has sales potentials.	The current tariff rate is likely to suppress a wide acceptance of this product. Blue Diamond (US) is available locally. Price range: RMB39.00-45.00 yuan/141.8g.

Mixed Nuts	The product has sales potentials in China. It would be more profitable if the product is processed in China.	Price will be the deciding factor. If the price is right, the product has sales potentials in China.	The product is relatively expensive and acceptable to high-income people. If the price is low and the quality high, the product has sales potentials.	The current tariff rate is likely to suppress a wide acceptance of this product. Planter (US) is available locally. Price range: RMB31.00 yuan/184g.
Macadamia Nuts	The product has sales potentials in China. It would be more profitable if the product is processed in China.	Price will be the deciding factor. If the price is right, the product has sales potentials in China.	The product is relatively expensive and acceptable to high-income people. If the price is low and the quality high, the product has sales potentials.	The current tariff rate is likely to suppress a wide acceptance of this product. No foreign brands in the local market.

Mixed Fruit	Canned fruits are not doing well in South China. China's source of canned fruit product is the Philippines.	Demand is small. Western restaurants and bakeries are the main buyers. People in South China prefer fresh fruits.	Western restaurants and bakeries are the buyers of canned fruit, not individual consumers.	China has its own food canning industry. Imported canned products are available locally. Del Monte (The Philippines) is readily available. Price range: RMB15.00-16.00/836g.
Pear Halves	Canned fruits are not doing well in South China. China's source of canned fruit product is the Philippines.	Demand is small. Western restaurants and bakeries are the main buyers. People in South China prefer fresh fruits.	Western restaurants and bakeries are the buyers of canned fruit, not individual consumers.	China has its own food canning industry. Imported canned products are available locally. China produces several variety of pears.
Sliced Peaches	Canned fruits are not doing well in South China. China's source of canned fruit product is the Philippines.	Demand is small. Western restaurants and bakeries are the main buyers. People in South China prefer fresh fruits.	Western restaurants and bakeries are the buyers of canned fruit, not individual consumers.	China has its own food canning industry. Imported canned products are available locally. China's fresh peaches when in season are usually in a fruit plate.

Clover Honey	China has its own high quality honey and its price is low. It would be hard for imported honey to compete with local products.	Maintaining stable temperature in transit is difficult. Thus, the product's quality is beyond control. Sales potential to consumers is low.	Many varieties of high quality honey available in China. Imported honey can be sold through specialty stores and higher-grade hotels and bakeries to westerners. Need 8-10 varieties.	Domestic honey occupies 90% of the China market. Available foreign brands are Sweet Meadow and Airborne (both from New Zealand). Price range: RMB35.00-55.00 yuan/500g.
Pepper Sauce	Has sales potentials. Price and advertising are important factors.	The market demand is not big. Western restaurants are the main buyers.	Sales potentials are great. Tabasco is the top brand in the market now. Suggest retailing at RMB10.00-12.00/60ml.	Tabasco (US) is often the first choice of western restaurants and higher-grade hotels. American Chef (US) is also available. Price range: RMB8.80-12.80/60ml.
Coffee Mate	Has market if couple sale with same brand coffee. Need advertising and promotion to enter the market.	If the price is right, the product has great potential in South China.	Has sales potentials. Best to sell it along with other products of the same brand on the same shelves.	Only Maxwell and Nestle (foreign brands) have coffee mates for sale in supermarkets. Both are made in China.
Peanut Butter	China has many factories producing peanut butter. Price and quality are the deciding factors for sales.	Several brands of peanut butter are available in the local market. The sales volume is relatively small for both domestic and foreign products.	Has sales potential but the market is small.	

Apricot Jam	China has many factories producing fruit jam. Price and quality are the deciding factors for sales.		Has sales potential but the market is small.	Domestic fruit jam is readily available in the local market. For Apricot jam, Robertson's (British) is the only foreign brand. Price range: RMB23.00 yuan/340g.
Neutralized Muscadine	Has great sales potential in China. Need advertising and promotion to enter the market.	This is a fashionable product in China. It has excellent prospect.	The product has sales potential. Suggest retailing at RMB220/60 tablets.	Health food is popular among Chinese people. However, importing the product would require an agent who knows the regulatory environment.

About the Importers/Assessors:

Importer A has been in the food products business for many years. She established her own import and export company in Guangzhou in 1991. Since then the company has handled (represented) more than 400 different items. The Guangzhou company has a subsidiary in the United States. The importer travels between China and the United States frequently to source new products. She had served as an agent for U.S. food companies.

Importer B has been in the food products business for many years. He established a food processing, packaging, and distribution company in 1995. He is serving as an agent for several well-known products from various countries. His company is especially strong in the promotion and sale of snack, candy, and chocolate. It has a subsidiary company in the United States. The importer is a frequent traveler to the United States.

Importer C is a couple who have been in the food product business since 1982. They were involved in food processing in the early years. Since 1989, they began serving as agents for many kinds of foreign products. In 1993, they set up a retail outlet for the sale of candies and chocolates. Since then, they have established 44 chain stores in Shanghai, Beijing, Guangzhou, Changsha, Chengdu, and other Chinese cities.

Through agreement with the Agricultural Trade Office and for a modest fee, these importers made themselves available for evaluating market potentials of new U.S. food products on an as-needed basis. In August this year, we brought to them the 17 products sent to us by three U.S. exporters. This report is their assessment.

The importers are available to serve as agents/distributors of U.S. food products and are also prepared to recommend other local importers to serve similar functions. U.S. exporters interested to use their services may contact them through the Agricultural Trade Office in Guangzhou.

Why PASS (Product Assessment Support Services)?

Despite its relative affluence and the establishment of a number of supermarkets in the area, South China has a limited supply of U.S. food products. Not knowing what new products are available is the primary barrier against the import, distribution and sale of U.S. food products in South China. As the Agricultural Trade Office, Guangzhou, is responsible for promoting the import of new food products, we have discussed extensively with supermarket managers, wholesalers, importers, and food safety officials on how best to introduce products in the current environment. We offered importing select products to test the market (New Products Promotion) through in-store promotions. However, in the current market condition, our contacts advised that doing direct in-store promotion is not a viable strategy for moving U.S. products. The newly

enforced Chinese labeling requirement is an *a priori* barrier. Trade shows to promote new products are an option, but they are usually expensive; the quality ones are held infrequently in South China.

To export a new product, an exporter has to know whether its product has sales potential in a foreign market. To import a new product, an importer has to handle the product to get a feel of its market potential. Until a U.S. product is in the hand of a prospective Chinese importer, it has little or no chance for sale in China. Until the U.S. exporter is reasonably assured that the product has sales potential in China, it makes no sense for him/her to make a new label to comply with Chinese regulations. To minimize undue investment of time and money, ATO Guangzhou established the Product Assessment Support Services (PASS) through which U.S. food exporters can get the basic information for deciding if they wish to export to China.

All that we require of the U.S. exporters is for them to send to our office four sets of their product samples with sufficient description on the content and their use, their price quotations and other specific questions they wish to have answers. At regular intervals – once quarterly now, the next one assessment is scheduled for November – we bring the new products to our panel of importers for assessment. Upon completion, we will send the PASS specific results to the U.S. exporters and publish the general results in a GAIN report similar to this one.

The Labeling Requirement

Labeling in Chinese has become a nationwide requirement for food (consumer) products for direct sale in China, as of July 1, 2002. In addition to product contents (ingredients), net weight, production date and place, product life, storage method, producer name and address, the label has to list the name and contact information for the local agent responsible for product. Finding a Chinese agent/distributor has become the first step in marketing in China. After getting the PASS report, U.S. exporters can decide if they are ready to contract with a Chinese agent/distributor to begin the labeling application process. In addition to considering whether the prospective agent/distributor is able to move one's product, the exporters might also consider whether the agent/distributor is able to pay for the goods promptly and to safeguard the product integrity. (Pre-packaged products are likely to retain their integrity than re-packaged products.)

The selected agent/distributor should be responsible for translating the product label, apply for label clearance and registration, and submit the product for food safety inspection. The fee for processing a label is RMB600yuan (US\$73). The cost for registering a label is RMB1,000-2,000 yuan (US\$121.00-242.00). The label needs to be registered with and cleared by the Customs at least three months in advance of the anticipated import. After the label is approved, the agent/distributor can send it to the U.S. exporters for reproduction and attachment to the product. Thereafter, the product with the approved label can be shipped to China for distribution and sales in and through the network of the agent/distributor.

Generally, at the label clearance stage, the U.S. exporters will need to send 3 kg each of their products as samples for inspection and registration. While the products are being approved for sale in China, the exporters will need to decide how to promote and advertise their products and who is responsible for what cost in promotion and advertisement. They also need to decide on the role of the local agent/distributor, whether he/she is to receive a flat fee for their service, a commission on the sale of product, or an outright buyer of the products.

Chinese importers are willing to be a new product's agents/distributors if they are convinced that the product is market competitive and has sales potentials in China. They usually take into consideration factors such as pricing, product quality, packaging (the item is neither too big nor too small), and taste (not too sweet for Southern China). They also need assurance of the exporter's ability to supply the products without undue interruption. As new products are relatively unknown, promotion and advertising are critical. Importers would be willing to sign on as an agents or distributors of a foreign product if the producer/exporter is willing to assume or share the cost of product promotion and advertisement. For a successful introduction of new products, both the producer/exporter and the importer/distributor need to have the assurance and confidence that they both will make reasonable profit, a win-win situation.

As noted in this first PASS report, price is a critical factor for new products. However, exporters need to emphasize the quality factor of their products and position in advance that their products are not for everybody. They need to appeal to the snob factor in consumer psychology to make known that U.S. products are top of the line. The emphasis should be on reasonable price for quality products.

Contact

If you are interested to know more about or to utilize the Product Assessment Support Services (PASS), contact the U.S. Agricultural Trade Office, China Hotel Office Tower, 14th Floor, Liu Hua Lu, Guangzhou, China 510150. Attention: Ms. Sharon Zhang. You can fax your expression of interest to 011-8620-8666-0703.